DRN-1890228

The complaint

Mr P says Morses Club PLC ("Morses") irresponsibly lent to him. Mr P says he had been borrowing for a long time. He continually topped up his loans and sometimes had several running at the same time. Mr P says he got into a cycle of debt.

What happened

This complaint is about 27 home collected credit loans provided to Mr P between June 2013 and November 2019. Mr P's borrowing history for the first five loans is as follows:

	1	2	3	4	5
Loan amount	£900	£700	£950	£500	£700
Start date	19/06/13	14/11/13	13/03/14	26/06/14	04/12/14
End date	13/03/14	04/12/14	08/01/15	12/03/15	28/01/16

Further to the above, Mr P took an additional 22 loans and the amounts borrowed ranged between £400 and £2,000. The repayments were made weekly.

I understand from Morses' repayment schedule that loans 25 to 27 haven't been fully repaid and the amount outstanding is £3,615.

Morses bought Mr P's account from another business in March 2014. And prior to Morses taking over the account Mr P had taken loans with the previous business. Loans one and two listed above were inherited by Morses from the previous business.

Our adjudicator reviewed Mr P's complaint and thought that the complaint should be upheld. The adjudicator said this because they thought the overall pattern of Mr P's borrowing indicated he was reliant on this type of loan and the borrowing was unsustainable. The adjudicator said Morses should have taken into account the borrowing Mr P had taken with the business that previously owned his account.

Morses didn't agree with the adjudicator. It said Mr P used the lending for non-essential spending and it was a lifestyle choice. So, Mr P was reliant on this type of lending out of choice. And it said that for it to have taken into account Mr P's lending with the previous business would be the same as it contacting a completely independent company.

Morses comments didn't change the adjudicator's opinion, so the complaint has been passed to me for a final decision.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

We've set out our general approach to complaints about irresponsible lending - including all the relevant rules, guidance and good industry practice - on our website.

Morses needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr P could repay the loans in a sustainable manner.

These checks could consider several different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. In the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that Morses should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);

- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a level of income);

- the *greater* the number and frequency of loans, and the longer the period during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I think that it is important for me to start by saying that Morses was required to establish whether Mr P could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course, the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the relevant regulations define sustainable as being without undue difficulties and the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

I've carefully considered all the arguments, evidence and information provided in this context and what this all means for Mr P's complaint. Having done so, I am upholding the complaint. I'll explain why.

Like the adjudicator, I'm satisfied that it would be reasonable to assume that Morses should have been aware of the earlier loans Mr P had taken with the previous business. And it should have taken that previous lending history into account when it was deciding whether to carry on lending to Mr P.

Morses has said it would be like contacting a completely independent company for it to have checked Mr P's lending history with the earlier business. But I note that Morses did take on the active loans (loans one and two in the above table) Mr P had when it bought his account from the previous business. So, it was aware at the outset that Mr P had taken two previous loans with the other lender.

Mr P came back for further borrowing at loan three (the first loan taken out with Morses) the same day that loan one was repaid. The amount he borrowed was only £50 more than loan one. But the transaction history for loan one shows that it was repaid by a lump sum on the day that loan three was taken out. So, it looks likely loan three was used to part repay loan one. And Morses was aware that loan two was still outstanding, having been taken four months earlier with around a further nine months to run so overall, Mr P's indebtedness would have increased further and for longer by taking out loan three.

So, I think Morses should have looked into this borrowing behaviour - quick reborrowing, using the new loan to partially repay the earlier loan as well as the concurrent lending – to see if it should reconsider lending to Mr P. It should have looked to build an accurate picture of Mr P's financial circumstances. It could have done this by asking for evidence of Mr P's income and expenditure – such as asking Mr P for copies of his pay slips and bills as examples. It also could have asked Mr P for copies of his bank statements and reviewed his credit reports.

If it had done more to build an accurate picture of Mr P's finances I think it's likely that Morses would've become aware that Mr P's lending relationship with the previous business had been ongoing for a number of years – and Morses club loans were just a continuation of the same borrowing relationship. And this same borrowing relationship continued on until 2019. Morses has said Mr P always met his repayments but I haven't gone on to consider affordability, I think it's more about whether the lending was sustainable.

I've looked at the overall pattern of Mr P's lending, with a view to seeing if Morses should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Morses should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Mr P's case, I think that this point was reached from when Morses bought the account from the previous lender. I say this because:

- Morses ought to have realised Mr P was not managing to repay his lending sustainably. If Morses had built more of a picture about Mr P's lending it would have seen he had been borrowing continuously from the previous lender for several years and which he wanted to carry on with Morses. So Morses ought to have realised it was more likely than not Mr P was having to borrow further to cover the hole repaying his previous loan was leaving in his finances – and not taking into account what Mr P was choosing to use that lending for – and that Mr P's indebtedness was increasing unsustainably.

- The credit report shows the last loan Mr P had with the previous lender was repaid the same day that loan one was taken out. And as I've said above, loan three was taken out the same day Mr P took loan three. This indicates the lending was unsustainable for Mr P.

I think that Mr P lost out because Morses provided the borrowing because:

- These loans had the effect of unfairly prolonging Mr P's indebtedness by allowing him to take expensive credit intended for short-term use over an extended period.

- The number of loans and the length of time over which Mr P borrowed was likely to have had negative implications on Mr P's ability to access mainstream credit and so kept him in the market for these high-cost loans.

So, I'm upholding Mr P's complaint about loans one to 27. Morses should put things right as laid out below.

Putting things right

- refund all interest and charges Mr P paid on loans one to 27;

- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;

- the number of loans taken means any information recorded about them is adverse. So, all entries about the loans one to 27 should be removed from Mr P's credit file. Morses does not have to remove loans 25 to 27 from Mr P's credit file until they have been repaid, but it should remove any adverse information recorded about these loans immediately.

† HM Revenue & Customs requires Morses Finance Limited to take off tax from this interest. Morses Finance Limited must give Mr P a certificate showing how much tax it's taken off if he asks for one.

My final decision

I'm upholding Mr P's complaint. Morses Finance Limited should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 11 September 2020.

Catherine Langley
Ombudsman